

Message Text

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70

ACTION ARA-20

INFO OCT-01 ADP-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 AGR-20 DODE-00 PM-07 H-03 L-03

NSC-10 PA-03 PRS-01 SS-15 USIA-15 NIC-01 RSR-01 /173 W

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R 171754Z AUG 73

FM AMEMBASSY LA PAZ

TO SECSTATE WASHDC 720

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E.O. 11652: N/A

TAGS: EFIN PFOR BL

SUBJ: GOB TAKES ACTION ON PRICES

REF: LA PAZ 5022 AND A-132

1. AS REPORTED REFTEL, PRICE PRESSURES AND COMMODITY SCARCITIES, PARTICULARLY IN LA PAZ, GREW TO SUBSTANTIAL PORTIONS RESULTING IN GOB DECISION TO FURTHER RESTRICT EXPORT ITEMS TO INSURE DOMESTIC SUPPLIES. ON WEDNESDAY, AUGUST 15, THE NEW GOB PRICE COMMISSION ORDERED THE INCREASE IN PRICES OF VARIOUS FOODSTUFFS. THE UNWEIGHTED AVERAGE INCREASE IN CONTROLLED PRICES IS ABOUT 18 PERCENT RANGING FROM A SMALL DECLINE TO INCREASES OF ABOUT 170 PERCENT. THESE PERCENTAGE CHANGE FIGURES ARE BASED ON PREVIOUS GOB PRICE LISTS ESTABLISHED SINCE OCTOBER DEVALUATION.

2. THIS NEW LIST IS MORE EXTENSIVE THAN PREVIOUS GOB LISTS, BRINGING A NUMBER OF NEW COMMODITIES UNDER CONTROL THAT WERE APPARENTLY EXEMPT FROM PREVIOUS GOB CONTROL ATTEMPTS. THE ITEMS ON LIST ARE ALL FOODSTUFFS.

3. GOB APPARENTLY INTENDS TO MAINTAIN PREVIOUSLY INTRODUCED POLICY INSTRUMENTS TO ENSURE NEW PRICES ARE KEPT STABLE.

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THESE INSTRUMENTS INCLUDE THE EXPORT PROHIBITIONS/CONTROLS,

POLICE MONITORING, AND EXISTING PENALTIES FOR SPECULATIVE ACTIVITY. A FURTHER INSTRUMENT BEING MENTIONED IS THE POSSIBLE ESTABLISHMENT OF GOB RETAIL FOOD OUTLETS TO PLACE COMPETITIVE PRESSURE ON EXISTING MARKET STRUCTURE TO HOLD DOWN PRICES.

4. COMMENT: IT APPEARS GOB RECOGNIZED FUTILITY, UNDER PRESENT CIRCUMSTANCES, OF ENFORCING UNREALISTIC PRICE CONTROLS IN A MARKET ENVIRONMENT CLEARLY MANIFESTING SUBSTANTIAL DISEQUILIBRIUM. THE DISEQUILIBRIUM REFLECTS A NUMBER OF FACTORS INCLUDING SUBSTANTIAL INCREASE IN LIQUIDITY (RESULTING FROM PAYMENT 14TH MONTH SALARY IN JULY TO PUBLIC SECTOR WORKERS), RUMORS OF DEVALUATION, EXPECTATIONS ON PART OF COMMERCIAL SECTOR THAT PRICES MUST GO HIGHER, WORLDWIDE PRICE INCREASES ON NUMBER AGRICULTURAL COMMODITIES CAUSING SUBSTANTIAL DISEQUILIBRIUM AND CONCOMMITANT CONTRABAND EXPORTS, ETC. THESE FACTORS MILITATED AGAINST SUCCESSFUL GOB ATTEMPTS TO HOLD PRICES.

5. THE PRESENT PRICE ADJUSTMENT APPEARS TO HAVE BROUGHT CONTROLLED PRICES CLOSER TO PREVAILING MARKET PRICES BUT SOME 10 PERCENT BELOW THE REQUIRED ADJUSTMENT (THIS BASED ON EMBASSY INDEX OF AVERAGE FOOD PRICES EXISTING PRIOR TO RECENT PRICE PRESSURES) WHICH WE BELIEVE NECESSARY TO RESTORE EQUILIBRIUM. THUS PRESENT GOB STEPS MAY NOT BE SUFFICIENT TO RESTORE CALM TO MARKET RESULTING IN FURTHER PRESSURE TO RAISE PRICES IN NEAR TERM. MOREOVER, AS THE FISCAL DEFICIT GROWS DURING NEXT FIVE MONTHS THE EXPANSION IN LIQUIDITY WILL INCREASE DEMAND PRESSURE CAUSING FURTHER PRICE ADJUSTMENT BY GOB.

BREWIN

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORT CONTROLS, PRICE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 17 AUG 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973LAPAZ05044
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: LA PAZ
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730832/aaaaawyt.tel
Line Count: 89
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: LA PAZ 5022 AND A-132
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 15 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Jan-2002 by martinjw>; APPROVED <05-Feb-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOB TAKES ACTION ON PRICES
TAGS: EFIN, PFOR, ECON, BL
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005